

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 AGR-05 IGA-01 SP-02 AID-05 EB-07 NSC-05

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E.O. 11652 N/A

TAGS: EAID, CE

SUBJ: US ECONOMIC ASSISTANCE FOR SRI LANKA

REF: COLOMBO 9955

1. PRIME MINISTER EXPRESSED APPRECIATION FOR RECENTLY-SIGNED PL 480 WHEAT FLOUR AND FERTILIZER AGREEMENTS DURING MY MEETING WITH HER MARCH 28. SAYING SHE HAD WRITTEN LETTER OF GRATITUDE TO PRESIDENT FORD. I TOLD PM I TOO WAS PLEASED WE WERE ABLE TO BE QUITE HELPFUL THIS YEAR, PARTICULARLY SO AGAINST BACKGROUND OF UNCERTAINTIES INHERENT IN US PL 480 PROGRAM.

2. I WENT ON TO SAY THAT I HAD NOTED GSL'S RECENT DECISION TO REMOVE WHEAT FLOUR FROM RATION AS OF APRIL 1 (COLOMBO 935). WHILE THIS WAS OBVIOUS INTERNAL MATTER FOR HER GOVERNMENT, WE SHARED WITH GSL ITS DESIRE TO ACHIEVE FOOD SELF-SUFFICIENCY AND, ON PERSONAL BASIS, IT SEEMED TO ME SUCH ACTION MIGHT TEND TO UNDERCUT RICE PRODUCTION DRIVE AS WELL AS GSL'S EMPHASIS ON SUBSIDIARY FOOD CROPS. PM REPLIED THAT SEVERAL OF HER OFFICIALS HAD EXPRESSED SIMILAR CONCERN BUT, ON OTHER HAND, POPULATION HAD BEEN THROUGH
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LONG PERIOD OF BELT-TIGHTENING AND FLOUR COULD ONLY BE

KEPT FOR CERTAIN TIME BEFORE SPOILAGE. FURTHERMORE, WHEAT FLOUR WOULD BE USEFUL TO OFFSET MALNUTRITION WHICH WAS INCREASINGLY SERIOUS PROBLEM. GSL PLANNED PURCHASE AVAILABLE SUBSIDIARY FOODSTUFFS AND THUS AVOID SERIOUS PRICE DROP THROUGH RELEASE OF ADDITIONAL WHEAT FLOUR ON MARKET. IN ANY EVENT, DECISION TO REMOVE WHEAT FLOUR FROM RATION WOULD BE REVIEWED AFTER SINHALA-TAMIL NEW YEAR.

3. LOOKING TOWARD FUTURE, I TOLD PM THAT AT FORTHCOMING AID GROUP MEETING IN PARIS I ANTICIPATED WE WOULD AFFIRM OUR INTENTION TO MAINTAIN CLOSE COOPERATIVE ECONOMIC RELATIONSHIP WITH SRI LANKA ALTHOUGH IT MIGHT BE DIFFICULT TO BE SPECIFIC AT THIS TIME REGARDING FUTURE AID LEVELS. AT SAME TIME WE, AS WELL AS OTHER AID DONORS, NATURALLY WERE INTERESTED IN GSL'S EFFORTS TO RATIONALIZE ITS ECONOMY SO THAT GSL COULD ACHIEVE WHAT IT HAS BEEN UNABLE TO ACHIEVE TO DATE, NAMELY, TO GENERATE ENOUGH SAVINGS FOR EFFECTIVE ECONOMIC DEVELOPMENT.

4. PM SAID THAT SHE AND HER ADVISERS HAD CONSIDERED POSSIBILITY OF TAKING FURTHER STEPS TO CUT BACK ON SUBSIDIES, SUCH AS MEASURES TAKEN OCTOBER 1973. HOWEVER, 1977 ELECTIONS WERE APPROACHING AND OPPOSITION LEADER JAYEWARDENE CONTINUED TO ATTACH GOVERNMENT ON FOOD ISSUE, BOASTING THAT IF ELECTED HE WOULD PROVIDE EVERY CITIZEN WITH EIGHT POUNDS OF FOOD PER DAY. CONSEQUENTLY, IT WOULD BE DIFFICULT POLITICALLY FOR GSL TO TAKE ANY FURTHER MAJOR STEPS.

GSL'S FIRST TASK WAS TO TRY TO OVERCOME EFFECTS OF RECENT DROUGHT AND TO MOVE AHEAD ON EFFECTIVE FOOD PRODUCTION CAMPAIGN. SHE NOTED THAT DESPITE DROUGHT THERE WERE SEVERAL POSITIVE SIGNS, INCLUDING DROP IN INTERNATIONAL PRICES AND GSL'S SUCCESS IN INCREASING ITS SUGAR PRODUCTION AND IN PROVIDING SATISFACTORY SUBSTITUTES FOR REFINED SUGAR.

5. COMMENT: WHILE WASHINGTON'S RESERVATIONS REGARD-LIMITED OFFICIAL USE

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ING GSL'S PERFORMANCE ARE WARRANTED IN TERMS OF ECONOMIC CRITERIA, IT SEEMS UNLIKELY GSL WILL FEEL IT HAS ENOUGH POLITICAL SECURITY SIGNIFICANTLY TO "RATIONALIZE" ITS ECONOMIC PROGRAM BETWEEN NOW AND 1977. PRIME MINISTER FEELS SHE TOOK FAR-REACHING STEPS IN OCTOBER 1973, WHICH INCREASED HER POLITICAL VULNERABILITY, AND SHE UNDOUBTEDLY CALCULATES THAT ANY FURTHER STEPS WILL ONLY PLAY INTO HANDS OF OPPOSITION.

IN UNFORTUNATE CEYLONENE TRADITION OF LAST 20 YEARS, J.R.
JAYEWARDENE IS NOW USING HIS POSITION AS OPPOSITION LEADER TO
EXPLOIT FOOD ISSUE AGAINST INCUMBENT GOVERNMENT
JUST AS MRS. BANDARANAIKE EXPLOITED THIS ISSUE IN
HER SUCCESSFUL 1970 CAMPAIGN.
VAN HOLLEN

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